



Pension Consulting Alliance, Inc.

Los Angeles • Portland • New York

April 21, 2008

Members of the Policy Subcommittee of the Investment Committee
California Public Employees' Retirement System
Lincoln Plaza East
400 Q Street, Room E4800
Sacramento, CA 95814

Re: Statement of Investment Policy for the Infrastructure Program

Dear Members of the CalPERS Investment Policy Subcommittee:

Pension Consulting Alliance, Inc. ("PCA") has reviewed the proposed Statement of Investment Policy for the Infrastructure Program ("Policy") to be presented at the Policy Subcommittee on April 21, 2008. The Policy reflects the parameters outlined for infrastructure investments within the proposed Inflation-Linked Asset Class ("ILAC"). In December 2007 the Investment Policy Subcommittee approved the investment policies for three of four components of the ILAC: commodities, inflation-linked bonds and forestland.

Infrastructure has emerged as a dynamic new asset class characterized by many components and complexities. The Policy encompasses a broad perspective on the infrastructure sector and enables CalPERS to participate in various types of investments. As drafted the Policy attempts to address the investment issues that are embodied within the infrastructure sector. The Policy clearly outlines the performance objectives, target returns, benchmarks, permitted investment opportunities and the different risks associated with infrastructure. In addition, the Policy attempts to address other investment and social issues with specific focus on responsible contracting and outsourcing policies.

As the infrastructure sector is new to CalPERS and the staff is developing its expertise in this sector, PCA recommends the development of an annual plan for infrastructure during the program's infancy years. The annual plan should provide detailed analysis of the operating and investment approaches for the program including but not limited to diversification and strategic approaches, investment sectors, geographies and leverage levels.

The Policy utilizes the CalPERS Responsible Contractor Program policy ("RCP") to outline the principles and commitment for responsible contracting practices related to domestic infrastructure investments. In addition, the Policy states a preference for working with domestic investment managers that have adopted responsible contracting policies consistent with the RCP. The Policy applies preference, with regard to managers who have adopted principles consistent with the RCP, for domestic investment vehicles that are otherwise excluded in the RCP. The Policy also strongly encourages domestic investment vehicles to establish a good faith effort to minimize public job loss at all times and to mitigate adverse effects on public employees.



P e n s i o n C o n s u l t i n g A l l i a n c e , I n c .

Los Angeles • Portland • New York

As CalPERS is one of the first public pension plans in the United States to make a significant commitment to the infrastructure sector, PCA firmly believes that the Policy assists CalPERS with developing a solid investment program for an asset class that is more complex than other established asset classes. We will be available for questions at the April 21st meeting.

Sincerely,

Allan Emkin
Managing Director

Judy Chambers
Managing Director

Cc: Russell Read, CalPERS
Anne Stausboll, CalPERS
Farouki Majeed, CalPERS
Mike Moy, PCA